



CHURCHILL FALLS
(LABRADOR) CORPORATION LIMITED

AR29

ONE OF THE  COMPANIES

Annual Report 1969





CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

Officers

Chairman:
SIR VAL DUNCAN, O.B.E.

President and Chief Executive Officer:
WILLIAM D. MULHOLLAND

Vice-President & Project Manager:
H. L. SNYDER, P.Eng.

Vice-President:
H. W. MACDONELL, Q.C.

Vice-President:
P. A. T. KEEPING

Secretary:
G. R. DEVEY, C.A.

Treasurer:
M. C. BURNES, C.A.

Directors

ROBERT D. ARMSTRONG,
Toronto, Ontario
President,
Rio Algom Mines Limited

*HENRY BORDEN, S.M., C.M.G., Q.C.,
Toronto, Ontario
Former President and Chairman,
Brazilian Light & Power Company,
Limited

ROBERT A. BOYD, Eng.
Montreal, Quebec
Commissioner,
Quebec Hydro-Electric Commission

YVON De GUISE, Eng.,
Montreal, Quebec
Commissioner,
Quebec Hydro-Electric Commission

*SIR VAL DUNCAN, O.B.E.,
London, England
Chairman and Chief Executive,
The Rio Tinto-Zinc Corporation Limited

ROLAND GIROUX,
Montreal, Quebec
President,
Quebec Hydro-Electric Commission

*SAM HARRIS,
New York, U.S.A.
Senior Partner,
Strasser, Spiegelberg, Fried & Frank

GEORGE P. HOBBS,
St. John's, Newfoundland
Chairman,
Newfoundland and Labrador Power
Commission

*ANDRE MONAST, Q.C.,
Quebec City, Quebec
Partner,
St. Laurent, Monast, Desmeules &
Walters, Barristers & Solicitors

*WILLIAM D. MULHOLLAND,
Montreal, Quebec
President & Chief Executive Officer,
British Newfoundland Corporation
Limited and Churchill Falls (Labrador)
Corporation Limited;
Chairman,
British Newfoundland Exploration
Limited

*EDMUND L. de ROTHSCHILD, T.D.,
London, England
Senior Partner,
N. M. Rothschild & Sons

H. L. SNYDER, P.Eng.,
Montreal, Quebec
Vice-President & Project Manager,
Churchill Falls (Labrador) Corporation
Limited

*ARTHUR S. TORREY,
Montreal, Quebec
Honorary Chairman,
Pitfield, Mackay, Ross & Company
Limited

SIR MARK TURNER,
London, England
Deputy Chairman,
Kleinwort Benson Ltd. and
The Rio Tinto-Zinc Corporation Limited

*Member of the Executive Committee

Head Office

1 Viking Road
St. John's, Newfoundland

Executive Office

One Westmount Square
Montreal 216, Quebec

On peut obtenir un exemplaire français de ce rapport auprès du service des Relations publiques, Churchill Falls (Labrador) Corporation Limited, Un, Westmount Square, Montréal 216 (Québec).

Cover:

Silhouetted against the late afternoon sun, two Churchill Falls transmission towers rise over the central Labrador landscape marking yet another milestone in the progress of the development. The first tower, 165 feet high and weigh-

ing 14 tons, was raised into position in February, 1970, near Mile 35, one of the base camps housing crews engaged in transmission line work along the 126-mile long right-of-way. The V-type guyed towers, believed to be the largest of their kind in the world, require only one

base and offer many advantages over conventional four-legged towers which require four stable footings precisely located. Such conditions are difficult to meet on the Churchill Falls transmission line right-of-way, where long stretches cross treacherous muskeg.

Foreword from the President

APR 20 1970

On May 12, officers of the Company and of Hydro-Quebec signed a power contract with a gross value of approximately \$5 billion. In rapid succession, the concluding and by far the largest elements of the permanent financing program for the development were signed. On May 13, agreements were signed with a consortium of Canadian banks, led by the Bank of Montreal, providing for a \$150 million term bank loan. On May 15, bond purchase agreements were signed with a group of Canadian and United States institutions providing for the purchase by them of \$590 million principal amount of First Mortgage Bonds. The bond financing, \$540 million of which was in U.S. funds, was arranged in the United States by Morgan Stanley & Co. and in Canada by that firm and Wood Gundy Securities Limited. These transactions brought the total of

funds raised externally to \$923 million which, together with earnings from sales of power estimated at \$150 million, bring the total funds available for the Project to \$1,073 million.

With the signing of the bond purchase agreements, any doubt that such a large undertaking could be launched successfully was laid to rest. To the many men and women in public and private life who contributed to bringing this about goes great credit and, I hope, the enduring personal satisfaction of having shared in the achievement of bringing this undertaking to its present advanced stage.

Unfortunately, during a year marked by great accomplishment, a series of tragedies took from us several men to whom we owe a great debt of gratitude for their contribution to the Company. On May 3, almost on the eve of the events to which I have referred, Donald

Gordon, C.C., C.M.G., LL.D., died unexpectedly. Donald Gordon forsook well-earned retirement, following a career distinguished in service to Canada, to become Chairman of the Company in March 1967. He was a giant of a man and his confidence, his courage and his integrity matched his stature. His contribution to the Company in two short years of service was on the same generous scale.

In October, we suffered a further loss. The Hon. Robert Winters, P.C., Chairman of the Company from 1963 to 1965, passed away suddenly to the sorrow of his friends and former colleagues.

(Continued on page 4)



William D. Mulholland (left), at the time a Partner of Morgan Stanley & Co., New York, and now President and Chief Executive Officer of Churchill Falls (Labrador) Corporation Limited, with Donald J. McParland, CFLCo's late President and Chief Executive Officer. The cheques represented proceeds from the sale of First Mortgage Bonds for the Churchill Falls development. The financing was handled in the United States by Morgan Stanley.

Foreword from the President

(Continued from page 3)

Then, on the evening of November 11, we were shocked to learn of the crash in Labrador of the CFLCo aircraft, carrying to their deaths Donald J. McParland, President, Eric G. Lambert, Vice-President, Finance, and John F. Lethbridge, Assistant to the President; Fred E. Ressegieu, J. Herbert Jackson and Arthur J. Cantle of Acres Canadian Bechtel and the crew of the aircraft. The loss to the Company was exceeded only by the enormity of the personal tragedies involved. For all of us associated with these men as friends and as colleagues over the years, this was surely one of the grimmest hours we shall ever experience.

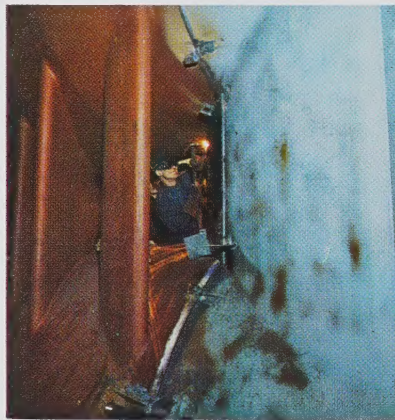
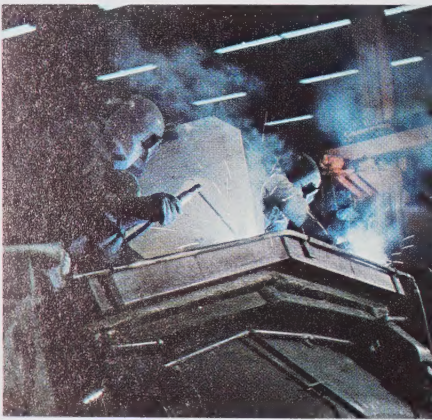
The men and women of the Company took this cruel blow in their stride and continued to function effectively as an organization. The ability to absorb a blow as potentially crippling as this one, with comparable losses

in ACB, our associated engineering and construction management organization, is characteristic of a truly outstanding team, and is perhaps the best indication of the calibre of the leadership lost to us. We have every reason to be proud of these men and women and I have no doubt that they will meet the tough challenges ahead with the same unquenchable spirit and quiet strength they have demonstrated in the past. It is a great privilege for me to begin an even closer association with them.

Almost concurrently with the conclusion of the power contract and financing negotiations, events elsewhere took a turn for the worse. On May 9, following the start of a strike by workers in the iron ore mining industry, the Quebec North Shore & Labrador Railway suspended service. Accordingly, for a substantial portion

of the limited northern construction season, our people and their teammates in associated organizations rose to the challenges, first of providing the necessities of life to a northern community of several thousand men, women and children and, secondly, of carrying on with their work under trying circumstances. Essential commodities were moved to the site by means of a round-the-clock airlift utilizing the then partially completed airstrip.

At this stage in our affairs, it is very gratifying to be able to report to you that the Churchill Falls development continues to be on schedule and within cost estimates. In the light of events of the past year, this is an accomplishment for which our staff and those of associated organizations deserve high praise. At the same time, I should note that it will require an outstanding effort



on the part of all concerned to maintain this status during the current year. During the coming construction season we must overcome the remaining difficulties created by the rail stoppage of last year. These involve some schedule dislocations and, in certain areas, work arrears which must be made up. The necessary adjustments and re-deployments have been made to permit this to be done without adversely affecting the project schedule, particularly the initial on-power date. In the circumstances, however, we shall require first-class performance from all of the organizations involved. We shall in any case take whatever measures are necessary to protect the project schedule.

During 1969, a total of 77 contracts were awarded for construction, equipment and services. This brought the total value of contracts awarded to

date to \$452 million representing three-quarters of the project construction estimate. Costs incurred to year end were essentially according to plan. Among the more significant achievements of the year were the completion of the powerhouse excavation, the containment of the Churchill River through the reservoir control structure and the completion of the airport for commercial jet service.

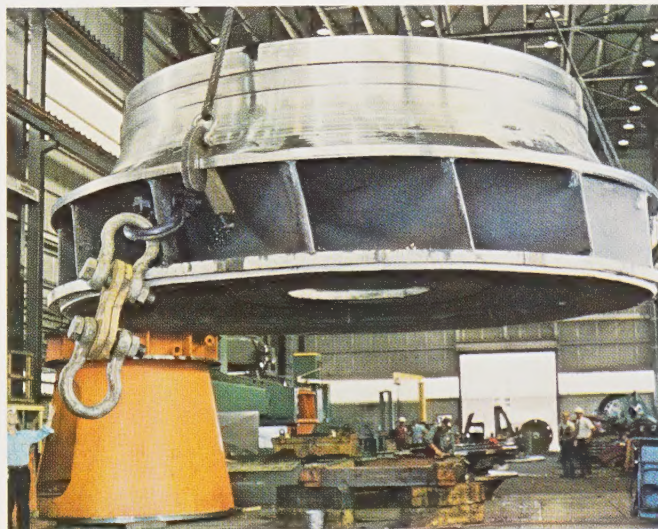
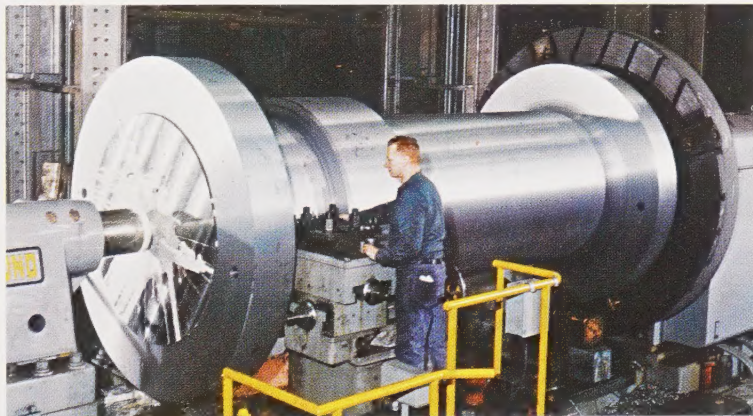
Twin Falls Power Corporation continued to service its customers in a manner that is a credit to its staff.

Before closing, I would like to express our appreciation to the many individuals and organizations — in both North America and overseas — who generously offered their support

and assistance as well as their condolences in the days following the aircraft accident. It is immensely heartening to know that we have such support.



W. D. MULHOLLAND
PRESIDENT AND CHIEF EXECUTIVE OFFICER
Montreal, March 10, 1970



Work on the turbine-generator units to be installed in the Churchill Falls underground powerhouse (centre) is being carried out under a contract awarded to The Churchill Falls (Machinery) Consortium, a joint venture of Canadian General Electric Company Limited, Dominion Engineering Works Limited and Marine Industries Limited. Manufacturing proceeded during 1969 on major turbine-generator components (far left), including a 735-ton scroll case assembly, a 15½-foot long shaft (above), and the largest stainless steel casting ever poured, a 145-ton (casting weight) turbine runner (immediate left).

Report of the Directors to Shareholders

In the past year, the Company successfully completed all the documentation covering the power sales and financing arrangements described in the 1968 Annual Report. The conclusion of these agreements assured the total commitment of the project and the funds to bring it to completion.

It is with great sadness, therefore, that we must record the loss, during the course of the year, of the three senior executives who were most directly responsible for these important achievements which secured the Company's future. Mr. Donald Gordon, Chairman, died suddenly on May 3 just a few days before the ceremonies attending the signing of the power contract and the financing. His contribution to the Company's affairs was of prime importance during a very critical phase of its development.

An air accident in Labrador on November 11 was responsible for the deaths of two other key members of

the management team: Mr. Donald J. McParland and Mr. Eric G. Lambert. Mr. McParland assumed responsibility for the technical direction of the Churchill Falls project in 1963 and, in 1966, he was elected President and Chief Executive Officer of the Company. Under his leadership, this very large undertaking involving political, commercial and technical problems of the greatest complexity, was brought successfully through a protracted preliminary phase to the stage now reached, midway through the program of major construction. The careful and imaginative planning done before the project got underway and the team assembled by Mr. McParland to implement it ensured that a highly professional approach was adopted.

Mr. Lambert joined CFLCo in 1966, as Vice-President, Finance, immediately following the signature of the Letter of Intent with Hydro-Quebec which enabled construction to be started at

Churchill Falls. He was responsible for the introduction of sophisticated financial information and control systems which permitted management to maintain a close and meaningful relationship between cost estimates and actual expenditures from the outset of the project. Mr. Lambert also played a key role in planning and carrying out the complex financing arrangements for Churchill Falls. The Company has been deprived of unusual talents and energy by Mr. Lambert's premature death.

The following persons who worked on the project also lost their lives in this air accident: John F. Lethbridge, Executive Assistant to the President of CFLCo; Fred E. Ressegieu, General Manager of Acres Canadian Bechtel of Churchill Falls (ACB); J. Herbert Jackson, Assistant

(Continued on page 15)



Years of planning culminated in the signing on May 12, 1969, of a power contract between Hydro-Quebec and CFLCo. Seated second from right (upper left) is D. J. McParland, CFLCo's late President; at right, E. G. Lambert, the late Vice-President, Finance. On May 13, arrangements for a \$150 million line of credit from a consortium of seven Canadian chartered banks were concluded. The following day, First Mortgage Bond signing ceremonies were attended by international representatives of business, banking and finance. Federal and provincial government representatives included (left) Hon. Paul Allard, Minister of Mines and Resources of Quebec (extreme left); Hon. J. R. Smallwood, Premier of Newfoundland (third from left); and Hon. Jean-Luc Pépin, Minister of Industry, Trade and Commerce of Canada (second from right).



CHURCHILL FALLS
(LABRADOR) CORPORATION LIMITED

Balance Sheet as at December 31, 1969

| Assets | <u>1969</u> | <u>1968</u> |
|--|----------------------|--------------------|
| Current assets: | | |
| Cash and short-term deposits | \$ 43,935,702 | 3,634,531 |
| Accounts receivable (including \$48,728 due from affiliates) | 5,374,358 | 3,668,673 |
| Special refundable tax | 21,713 | 23,083 |
| Prepaid expenses | 492,106 | 318,539 |
| Total current assets | <u>49,823,879</u> | <u>7,644,826</u> |
| Funds held by Trustee | 1,400,000 | — |
| Investment in shares of Twin Falls Power Corporation Limited (notes 1 and 2) | 2,682,959 | 2,747,671 |
| Churchill Falls power project, at cost | 242,571,510 | 113,799,329 |
| Less accumulated depreciation | <u>5,012,656</u> | <u>4,287,338</u> |
| | 237,558,854 | 109,511,991 |
| Debt discount and financing expenses | 3,182,002 | 1,605,783 |
| | <u>\$294,647,694</u> | <u>121,510,271</u> |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable | \$ 18,272,848 | 10,820,437 |
| Accrued liabilities | <u>2,941,180</u> | <u>1,668,233</u> |
| Total current liabilities | 21,214,028 | 12,488,670 |
| Long-term debt (note 5) | 188,984,488 | 25,000,000 |
| Shareholders' equity: | | |
| Capital stock (note 6) | 82,899,992 | 82,899,986 |
| Retained earnings (notes 3 and 7) | <u>1,549,186</u> | <u>1,121,615</u> |
| | 84,449,178 | 84,021,601 |
| Commitments and contingent liabilities (note 8) | <u>\$294,647,694</u> | <u>121,510,271</u> |

The accompanying notes are an integral part of the above balance sheet and should be read in conjunction therewith.

On behalf of the Board:

WILLIAM D. MULHOLLAND, Director.

R. A. BOYD, Director.



**Statement of Earnings and Retained Earnings
for the year ended December 31, 1969**

| | <u>1969</u> | <u>1968</u> |
|---|---------------------|------------------|
| Revenue from Twin Falls Power Corporation Limited: | | |
| Rental of rights and facilities | \$ 725,000 | 662,000 |
| Construction management fee | 318 | 202,213 |
| Gross revenue | <u>725,318</u> | <u>864,213</u> |
| Newfoundland rental | 70,217 | 63,796 |
| Depreciation | <u>725,318</u> | <u>864,213</u> |
| Operating profit (loss) for the year | (70,217) | (63,796) |
| Equity in net earnings for the year of Twin Falls Power Corporation Limited (note 1) .. | <u>497,788</u> | <u>439,031</u> |
| Net earnings for the year (notes 7 and 10)..... | <u>427,571</u> | <u>375,235</u> |
| Retained earnings at beginning of year (note 3) | 1,121,615 | 746,380 |
| Retained earnings at end of year | <u>\$ 1,549,186</u> | <u>1,121,615</u> |

The accompanying notes are an integral part of the above statement of earnings and retained earnings and should be read in conjunction therewith.

**Statement of Source and Application of Funds
for the year ended December 31, 1969**

| | | |
|---|----------------------|-------------------|
| Source of funds: | <u>1969</u> | <u>1968</u> |
| From current operations: | | |
| Operating profit (loss) | \$ (70,217) | (63,796) |
| Depreciation | <u>725,318</u> | <u>864,213</u> |
| | 655,101 | 800,417 |
| Dividends received from Twin Falls Power Corporation Limited (note 1) | 562,500 | 400,000 |
| Issue of capital stock | 6 | 58,750,006 |
| Issue of long-term debt: | | |
| First Mortgage Bonds Series A | 77,109,488 | — |
| First Mortgage Bonds Series B | 11,875,000 | — |
| General Mortgage Bonds | <u>75,000,000</u> | <u>25,000,000</u> |
| | <u>165,202,095</u> | <u>84,950,423</u> |
| Application of funds: | | |
| Development of Churchill Falls power project | 128,772,181 | 71,785,539 |
| Financing expenses | 1,576,219 | 1,388,494 |
| Funds held by Trustee | 1,400,000 | — |
| Conversion to shares of advances from shareholders | — | 12,737,040 |
| | <u>131,748,400</u> | <u>85,911,073</u> |
| Increase (decrease) in working capital | <u>\$ 33,453,695</u> | <u>(960,650)</u> |

The accompanying notes are an integral part of the above statement of source and application of funds and should be read in conjunction therewith.



Notes to the Financial Statements as at December 31, 1969

(1) Twin Falls Power Corporation Limited:

Churchill Falls (Labrador) Corporation Limited ("Churchill Falls") holds voting control of Twin Falls Power Corporation Limited ("Twin Falls") through its ownership of all the Class A shares which carry four votes per share but these shares represent only one third of the shareholders' interest in Twin Falls and, therefore, its assets and liabilities have not been included in Churchill Falls' financial statements.

In 1969 the Company changed its accounting practice in respect of its investment in Twin Falls to an equity basis and included the related amounts in the statement of earnings and retained earnings. Previously the investment in Twin Falls was carried at cost.

For comparative purposes the financial statements for 1968 have been included on the revised basis.

(2) Investment in shares of Twin Falls Power Corporation Limited:

| | | |
|--|------------|---------------------|
| Original cost | | \$ 2,500,000 |
| Equity in retained earnings at beginning of year | \$ 247,671 | |
| Equity in net earnings for the year | 497,788 | |
| | 745,459 | |
| Dividends received | 562,500 | 182,959 |
| | | <u>\$ 2,682,959</u> |

(3) Retained earnings:

As a result of adjusting the investment in Twin Falls to an equity basis, the retained earnings as at January 1, 1968 have been increased by \$208,640 to \$746,380 representing the equity in net earnings of Twin Falls of \$1,071,140 less dividends received of \$862,500 to that date. The statement of earnings and retained earnings for the year 1968 has also been adjusted to an equity basis for comparative purposes.

(4) Power Contract:

Quebec Hydro-Electric Commission and Churchill Falls have entered into a power contract dated May 12, 1969, providing for the purchase of substantially all the power from the Churchill Falls power project ("Project") for an initial period of approximately forty years with a renewal for a further period of twenty-five years.

(5) Long-Term Debt:

| | <u>Authorized</u> | <u>Issued and Outstanding</u> | |
|---|-----------------------|-------------------------------|-----------------------|
| First Mortgage Bonds | | | |
| 7 ³ / ₄ % Series A due December 15, 2007 | \$ 500,000,000 (U.S.) | 71,550,000 (U.S.) | 77,109,488 |
| 7 ⁷ / ₈ % Series B due December 15, 2007 | 50,000,000 | — | 11,875,000 |
| General Mortgage Bonds | | | |
| 7 ¹ / ₂ % due three years after latest maturity of any First Mortgage Bonds | 100,000,000 | — | 100,000,000 |
| | | | <u>\$ 188,984,488</u> |

The First Mortgage Bonds Series A are carried in the balance sheet at the proceeds in Canadian dollars realized at the time such bonds were issued.

Bond Purchase Agreements dated May 15, 1969 have been signed covering the purchase of all the authorized First Mortgage Bonds.

The First Mortgage Bonds are repayable in semi-annual instalments, commencing two years after completion of the Project, sufficient to retire them fully by maturity.

The General Mortgage Bonds are entitled to the benefit of a sinking fund, commencing after completion of the Project, amounting to 2% of the balance outstanding at the commencement of each year, payable in semi-annual instalments. The General Mortgage Bonds are subordinate to the First Mortgage Bonds.

(Continued on page 10)



Notes to the Financial Statements (Continued)

Churchill Falls has entered into an agreement dated May 15, 1969, with a consortium of Canadian banks, the terms of which provide for a credit not exceeding \$150,000,000 at any one time outstanding. No amounts may be drawn down under the agreement prior to January 1, 1972, and it is subject to certain other conditions.

(6) Capital Stock:

During the year 750,000 fully paid Common Shares were issued for a total cash consideration of \$6 in conjunction with six issues of the General Mortgage Bonds. Common Shares without nominal or par value authorized and issued as at December 31, 1969, were:

| | <u>Shares</u> | <u>Amount</u> |
|-----------------------------|---------------|---------------|
| Authorized | 10,000,000 | |
| Issued and fully paid | 8,759,999 | \$ 82,899,992 |

There are restrictions on the issue of further capital stock without the approval of the holders of at least 75% of the outstanding Common Stock.

(7) Dividend Restrictions:

The covenants of the debt instruments of Churchill Falls prohibit the payment of cash dividends by Churchill Falls prior to completion of the Project and place restrictions on the payment of cash dividends thereafter.

(8) Commitments and Contingent Liabilities:

- (i) At December 31, 1969, Churchill Falls had entered into contracts related to the Project involving expenditures after that date estimated at \$240,000,000.
- (ii) Under the terms of the Churchill Falls (Labrador) Corporation Limited (Lease) Act, 1961, and amendments thereto, Churchill Falls has entered into a 99-year lease covering the water power potential of the Upper Churchill Watershed and is required to pay an annual rental of 8% of the consolidated net profits before income taxes (as defined) and an annual royalty of 50 cents per horsepower year generated (as defined).
- (iii) Churchill Falls' liability under its pension plan for past services is being paid by annual instalments over 21 years. The payment for past service in 1969 was \$4,100. The total unfunded liability for past service is \$34,900 as at December 31, 1969.

(9) Directors' Remuneration:

Remuneration paid to Directors in 1969 amounted to \$18,816.

(10) Income Taxes:

No provision has been made for taxes on income because Churchill Falls did not have any income subject to tax.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Churchill Falls (Labrador) Corporation Limited as at December 31, 1969 and the statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1969 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent, except for the change referred to in note 1 to the financial statements with which we concur, with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants.

Montreal, Que.
February 27, 1970

TWIN FALLS POWER CORPORATION LIMITED

Balance Sheet as at December 31, 1969

| Assets | 1969 | 1968 |
|--|----------------------|-------------------|
| Current assets: | | |
| Cash and short-term deposits | \$ 4,812,456 | 2,607,246 |
| Marketable securities, at cost (market value \$1,747,175) | 1,750,000 | 2,925,875 |
| Accounts receivable | 392,686 | 572,909 |
| Special refundable tax | 31,171 | 75,199 |
| Supplies and prepaid expenses | 163,982 | 90,774 |
| Total current assets | 7,150,295 | 6,272,003 |
| Funds held by Trustee | 906 | 1,072,812 |
| Plant and equipment, at cost | 59,910,247 | 59,691,070 |
| Less accumulated depreciation | 10,519,550 | 8,717,387 |
| | <u>49,390,697</u> | <u>50,973,683</u> |
| | <u>\$ 56,541,898</u> | <u>58,318,498</u> |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable (including \$3,608 to affiliates) | \$ 42,968 | 558,347 |
| Accrued liabilities | 25,623 | 210,982 |
| Dividends payable (including \$187,500 to affiliate) | 562,500 | 187,500 |
| Income taxes payable (note 2) | 594,549 | 419,484 |
| First Mortgage Bonds due within one year (\$1,501,000 U.S.) (note 1) | 1,600,993 | 2,063,415 |
| Total current liabilities | <u>2,826,633</u> | <u>3,439,728</u> |
| First Mortgage Bonds (note 1): | | |
| 5 ¹ / ₂ % Series A due June 30, 1986 (\$32,494,000 U.S.) | 34,600,772 | 35,987,187 |
| 6 ¹ / ₄ % Series B due June 30, 1989 (\$ 7,085,000 U.S.) | <u>7,085,000</u> | <u>7,875,644</u> |
| | 42,240,359 | 43,862,831 |
| Deferred taxes applicable to future years (note 2) | 3,426,029 | 2,772,926 |
| Shareholders' equity: | | |
| Capital stock (note 4): | | |
| Authorized — 500,000 Class A shares of the par value of \$10 each | | |
| — 1,000,000 Class B shares of the par value of \$10 each | | |
| Issued — 250,000 Class A shares fully paid | 2,500,000 | 2,500,000 |
| — 500,000 Class B shares fully paid | 5,000,000 | 5,000,000 |
| Retained earnings | <u>140,877</u> | <u>743,013</u> |
| | 8,048,877 | 8,243,013 |
| Commitments and contingent liabilities (note 3) | <u>\$ 56,541,898</u> | <u>58,318,498</u> |

The accompanying notes are an integral part of the above balance sheet and should be read in conjunction therewith.

On behalf of the Board:

H. L. SNYDER, Director.

M. F. NICHOLSON, Director.

TWIN FALLS POWER CORPORATION LIMITED

Statement of Earnings and Retained Earnings for the year ended December 31, 1969

| | 1969 | 1968 |
|--|-------------------|------------------|
| Sales of power | \$ 8,417,257 | 7,809,324 |
| Cost of power | 1,449,850 | 1,609,319 |
| Interest (note 5) | 2,525,309 | 2,213,730 |
| Depreciation | 1,814,567 | 1,593,913 |
| | <u>5,789,726</u> | <u>5,416,962</u> |
| Earnings before the following items | 2,627,531 | 2,392,362 |
| Income from investments | 454,217 | 306,196 |
| | <u>3,081,748</u> | <u>2,698,558</u> |
| Taxes on income (note 2): | | |
| Current | 1,106,593 | 701,577 |
| Deferred | 481,791 | 679,889 |
| | <u>1,588,384</u> | <u>1,381,466</u> |
| Net earnings for the year | 1,493,364 | 1,317,092 |
| Retained earnings at beginning of year | 743,013 | 625,921 |
| | <u>2,236,377</u> | <u>1,943,013</u> |
| Dividends | 1,687,500 | 1,200,000 |
| Retained earnings at end of year | <u>\$ 548,877</u> | <u>743,013</u> |

The accompanying notes are an integral part of the above statement of earnings and retained earnings and should be read in conjunction therewith.

Statement of Source and Application of Funds for the year ended December 31, 1969

| | 1969 | 1968 |
|--|---------------------|------------------|
| Source of funds: | | |
| From current operations: | | |
| Net earnings | \$ 1,493,364 | 1,317,092 |
| Depreciation | 1,814,567 | 1,593,913 |
| Deferred income taxes | 481,791 | 679,889 |
| Disposal of plant and equipment | 5,592 | — |
| | <u>3,795,314</u> | <u>3,590,894</u> |
| Transfer of current taxes payable to deferred income taxes | 171,312 | (79,843) |
| Funds from Series B Bonds drawn from Trustee | <u>1,072,812</u> | <u>4,321,250</u> |
| | <u>5,039,438</u> | <u>7,832,301</u> |
| Application of funds: | | |
| Plant and equipment—net | 237,173 | 4,689,357 |
| Reduction of long-term debt | 1,623,378 | 2,063,415 |
| Dividends | <u>1,687,500</u> | <u>1,200,000</u> |
| | <u>3,548,051</u> | <u>7,952,772</u> |
| Increase (decrease) in working capital | <u>\$ 1,491,387</u> | <u>(120,471)</u> |

The accompanying notes are an integral part of the above statement of source and application of funds and should be read in conjunction therewith.

TWIN FALLS POWER CORPORATION LIMITED

Notes to the Financial Statements as at December 31, 1969

(1) First Mortgage Bonds:

The following amounts of 5½% First Mortgage Bonds Series A due June 30, 1986, and 6¼% First Mortgage Bonds Series B due June 30, 1989, have been authorized, issued and retired by Twin Falls Power Corporation Limited ("Twin Falls"), pursuant to the terms of the Deed of Trust and Mortgage, as amended ("Trust Deed").

| | Series A (U.S. \$) | Series B (U.S. \$) |
|-------------------------------------|-----------------------|-----------------------|
| Authorized | 42,500,000 | 10,000,000 |
| Issued | 39,500,000 | 8,000,000 |
| Retired | 5,704,000 | 716,000 |
| Outstanding December 31, 1969 | 33,796,000 | 7,284,000 |
| Payable within one year | 1,302,000 | 199,000 |

The First Mortgage Bonds of each Series are repayable in equal semi-annual instalments of principal and interest. The First Mortgage Bonds are secured by a first fixed and specific mortgage, pledge and charge on plant and equipment and long-term power and other contracts and a first floating charge on all other assets of Twin Falls. Certain restrictions are placed by the Trust Deed on the payment of dividends other than stock dividends. The First Mortgage Bonds are carried in the balance sheet at the proceeds in Canadian dollars realized at the time such bonds were issued and U.S. funds required to service this debt are made available without loss or gain on exchange to Twin Falls by its customers under its long-term power contracts.

(2) Income Taxes:

Taxes on income have been provided on the basis of claiming maximum capital cost allowances permitted by the Income Tax Act. These allowances exceed the depreciation recorded in the accounts. The resulting reductions in current income taxes have been recorded as deferred taxes applicable to future years.

(3) Commitments and Contingent Liabilities:

- (i) Twin Falls has a Sublease from Churchill Falls (Labrador) Corporation Limited giving Twin Falls the right to develop the hydroelectric power potential of the Unknown River, a tributary of the Churchill River, at the site of the Twin Falls project. The Sublease expires December 31, 1989, but may be renewed for a term of 25 years, if Twin Falls so requests.
- (ii) Rentals payable annually to Churchill Falls (Labrador) Corporation Limited amount to \$305,000 and \$1.40 per installed horsepower. In addition, Twin Falls pays an annual royalty of 50 cents per horsepower year generated (as defined). In the event that Churchill Falls diverts water from Twin Falls it must deliver equivalent hydroelectric power to Twin Falls as provided in the Sublease. The rentals and royalty will be payable at the same rates, the royalty being calculated as though the power so delivered had been generated in the Twin Falls plant.

(Continued on page 14)

TWIN FALLS POWER CORPORATION LIMITED

Notes to the Financial Statements (Continued)

(4) Capital Stock:

The issued share capital of Twin Falls consists of 250,000 Class A shares each of \$10 par value owned by Churchill Falls (Labrador) Corporation Limited and 500,000 Class B shares each of \$10 par value, owned by the present long-term customers of Twin Falls. The Class A shares are entitled to four votes per share and the Class B shares are entitled to one vote per share but rank pari passu in all other respects.

(5) Interest:

| | |
|--|---------------------|
| Interest on First Mortgage Bonds | \$ 2,540,740 |
| Less interest earned on funds held by Trustee for Series B First Mortgage Bonds | 15,431 |
| Interest expense | <u>\$ 2,525,309</u> |

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Twin Falls Power Corporation Limited as at December 31, 1969 and the statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1969 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Que.
January 26, 1970.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants.

Report of the Directors to Shareholders

(Continued from page 6)

General Manager of ACB; Arthur J. Cattle, Assistant Manager of Construction of ACB. Mr. Ressegieu ably led the ACB organization and his skill and experience were an important factor in advancing the project through the planning and construction stages. The valuable contribution made to the Company's progress by each of these men is gratefully acknowledged.

Following the death of Mr. McParland, Sir Val Duncan, Chairman of the Executive Committee, was appointed Chairman and President of the Company. On January 5, 1970, Sir Val was succeeded as President and Chief Executive Officer by Mr. William D. Mulholland, a director of the Company.

On June 25, Mr. Harold L. Snyder, Project Manager, was elected a Vice-President. Mr. Gordon R. Devey was elected Secretary of the Company in November.

In January 1970, Mr. P. A. T. Keeping was elected a Vice-President and Mr. Daniel Wermenlinger, Manager of

Engineering, was appointed Assistant Project Manager, with particular responsibility for recruiting, training and developing the operating organization.

In March 1970, Mr. Harry W. Macdonell, Q.C., was elected a Vice-President and appointed General Counsel of the Company, succeeding Mr. C. T. Manning, Q.C.

During the year under review a number of changes occurred in the composition of the Board of Directors. The following directors retired: Mr. Paul Desmarais, Mr. Jean-Claude Lessard and Mr. Philip Shelbourne. The retiring directors have given valuable services to your Company and their counsel will be missed.

The following have been elected directors: Mr. Roland Giroux, President, Hydro-Quebec; Messrs. Robert A. Boyd and Yvon De Guise, Commissioners of Hydro-Quebec; and Mr. Harold L. Snyder, Vice-President and Project Manager.

On May 12, 1969, the Power Contract between the Company and Hydro-Quebec was signed and, in the same week, the various financing documents relating to borrowings totalling \$840 million were executed.

These borrowings, together with equity subscriptions and projected retained earnings from the sale of power prior to the installation of all 11 turbine-generator units in 1976, will provide total funds estimated at \$1,073 million, sufficient to allow a margin above the estimated total project cost of \$950 million.

This project capital cost estimate includes \$40 million of contingency and a provision of in excess of \$100 million for cost escalation.

Principal Construction Activity

The tempo of construction increased steadily during 1969 in all areas essential for first commercial deliveries of power in 1972.

Excavation of the underground power complex neared completion with two of the three chambers, the transformer gallery and the surge chamber, fully excavated. In the powerhouse, the twin 400-ton travelling cranes were lifted in place and concreting of draft tubes started. Off-site, fabrication of components for the first generating units continued.

In May, development of the reservoir system passed a milestone with containment of the Churchill River's flow through the Lobstick control structure. This gave access to the dyke

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Report of the Directors to Shareholders

(Continued from page 15)

line on the north side of the river. Another significant event was the re-directing of the Naskaupi River through a concrete tunnel to permit construction of the Orma Lake dyke.

Clearing of the right-of-way for the three 735 kv transmission lines was completed and tower foundations were started for the first two lines. The switchyard site was cleared and graded.

Coincident with labor unrest in the iron ore industry the Quebec North Shore & Labrador Railway, a common carrier, suspended service. Interruption of service on this vital transportation link for the Churchill Falls development began in May and lasted more than three months. It presented a serious challenge to the construction schedule. The field force was supplied by air with a total of 1,143 inbound flights transporting 11,600 tons of general freight and 650,000 gallons of fuel.

Not all contractors had completed their mobilization for the season when rail services stopped. Progress on dykes for the forebay and in the Orma Lake area was affected. The 1970-71 programs have been adjusted to accommodate work not achieved in 1969.

With this exception, all significant construction objectives for the year were met. The development as a whole remains on schedule and within the original Project estimate.

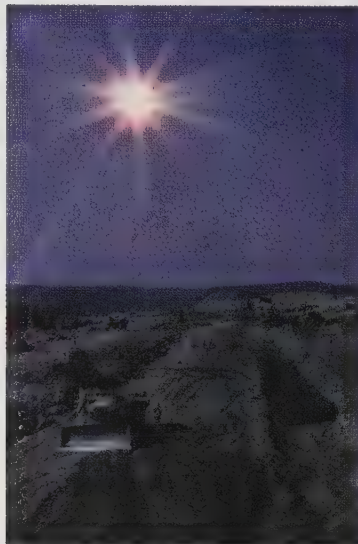
Expenditures on the Project for 1969 were \$128.8 million, bringing the total incurred to the end of 1969 to \$242.6 million. This represents 26 per cent of the Project cost estimate for plant and property.

During the year awards on construction contracts and major procurement contracts brought firm commitments for the total Project to \$452 million or slightly more than three-quarters of the Project construction estimate.

Tendering by contractors and suppliers continued to be competitive. To date 40 different contractors have shared in 79 construction and service contracts, of which 27 are complete and 52 still in progress.

The work force at year end stood at nearly 2,900 after having reached a season's peak, in early fall, of 4,500. Efforts taken to ensure an adequate supply of qualified manpower have proven satisfactory. A committee of the Newfoundland House of Assembly, set up during the year to investigate conditions of employment and living at Churchill Falls, reported favorably.

Opening of the permanent Town Centre complex, which includes the school, a combined movie hall and auditorium, a gymnasium, a curling rink, bowling alleys, a library and a 21-room hotel with dining room, provided a welcome addition to the Main Camp facilities. The permanent hos-



Construction of dykes to form the giant Churchill Falls reservoir and channel water to the powerhouse intake was a major part of the 1969 construction program. Photo at left shows till being compacted to form the core of a rockfill dyke in the intake area. It is part of 40 miles of dykes required for the development. Water from the forebay will enter eleven inclined penstocks at the intake structure, above. Fifty miles from the powerhouse, the Lobstick control structure (right), is one of six water-regulating concrete structures (including the intake structure) required for the 7,000,000 h.p. development, the largest, single-site power producer in the western world.

pital was opened early in the year. Commercial jet service to Montreal and St. John's was inaugurated in October from the new Churchill Falls Airport, with its 5,500-foot paved runway.

1970 Program

With civil work progressing rapidly and with the major equipment on order, emphasis on the work at site will turn increasingly to mechanical and electrical installation.

The field force during 1970 is expected to approach 6,000 at its peak during the summer. By the end of 1970 the project will be well past the half-way point toward completion.

The direct construction cost forecast for 1970 is \$168 million and the budget for the entire operation of the Company during the year is set at approximately \$191 million.

In the powerhouse complex, excava-

tion of the draft tubes and of the inclined penstocks will be completed and concreting of the penstocks started. There will be considerable concreting in the powerhouse proper as foundations for the generating units are built and scroll cases and other parts for the first turbines are assembled and embedded. Plant fabrication of components for the first generators will be nearly completed and major parts will be shipped to site. The mechanical/electrical contractor will begin his work underground and construction of the control building and switchyard will start.

Concreting of the intake structure will begin. Excavation of the east tailrace tunnel will be completed and construction will be underway on the tailrace portals.

Work will be pursued vigorously in all dyke construction areas. The Whitefish Falls control structure will be completed and the two spillways

built. Field assembly and installation of the operating gates will begin.

Erection of towers for the first two 735 kv lines will proceed through the year and stringing of conductor will begin. Work will start on crossing of the Churchill River. This will involve spans of up to 6,165 feet.

Engineering design work as such will be completed and the emphasis will turn to performance testing, operating and maintenance procedures, and the production of final reports and drawings.

Financial

The Company has changed its accounting practice in respect of its investments in Twin Falls Power Corporation Limited to an equity basis. Previously this investment was carried

(Continued on page 18)



Report of the Directors to Shareholders

(Continued from page 17)

at cost. The Company's share of Twin Falls earnings and retained earnings have been included in the Company's accounts.

The funds required to meet construction costs came from further sales of \$75 million of General Mortgage Bonds, to bring the total up to the full authorized amount of \$100 million, and the first sales of First Mortgage Bonds.

The Company's First Mortgage Bond Purchase Agreements provide that the lenders will purchase agreed amounts of Bonds at dates nominated by the Company in each quarter until the end of 1973.

The first two closings took place in 1969 and U.S. \$71,550,000 and Cdn. \$11,875,000 of Bonds were sold. A subsequent closing in February 1970 provided a further U.S. \$25,700,000 and Cdn. \$3,900,000. A further U.S. \$128,200,000 and Cdn. \$3,350,000 of Bonds is scheduled through 1970.

Twin Falls Power Corporation Limited

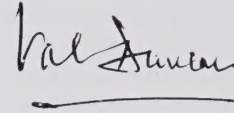
Late in 1968, a fifth unit, of 67,000 horsepower, was placed in operation at the Twin Falls plant to meet increased requirements of the iron ore mining centres in Western Labrador. Thus, 1969 became the first full year of operations for the plant at 307,000 horsepower. Satisfactory service to customers was maintained through the year.

Revenue of Twin Falls during 1969 was \$8,417,257 and net earnings were \$1,493,364.

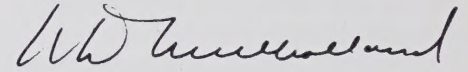
During the year a number of appointments were made. Mr. Guy Fontaine was appointed Operations Manager at Twin Falls succeeding Mr. Neil Colwell, who was transferred to the CFLCo engineering staff. Mr. Elmer G. Squires, who is CFLCo Site Manager at Churchill Falls, was, in addition, appointed General Manager of Twin Falls. Mr. Harold L. Snyder was elected President in January 1970.

Mr. Gordon R. Devey was appointed Secretary.

The directors wish to express their appreciation to the staffs of the Company and of Acres Canadian Bechtel of Churchill Falls for the hard work and enthusiasm displayed during the year.



SIR VAL DUNCAN,
CHAIRMAN



WILLIAM D. MULHOLLAND,
PRESIDENT

Montreal, March 10, 1970



Focal point of the Churchill Falls permanent community is the Town Centre which groups educational, recreational and commercial facilities under one roof. A spacious concourse (left), a modern-day adaptation of the town square concept, serves as a central point for a network of corridors connecting retail establishments with public services including a school offering classes from kindergarten to Grade 9, indoor recreation and a 21-room hotel. There will be a permanent population in excess of 1,000 after completion of the development in 1976 but the Town Centre at present also serves the Main Camp construction force. Site population in 1970, the busiest construction year, should peak at close to 6,000 persons.

Churchill Falls Development

Major Construction, Procurement and Field Support Service Contracts

March 1, 1969, to February 28, 1970:

Aluminum Company of Canada, Limited:

conductor cable for first two
735 kV lines

AEG-Telefunken:

735 kV potential transformers

Atco (Québec) Ltée:

trailer units

Beaver Foundations Limited:

dock alterations at Sept-Iles

Bédard Girard Newfoundland Limited:

camp maintenance; modifications to
Main Camp substation

Belcan Electric Sales Ltd.:

735 kV shunt reactors

Bona Vista Food Services Limited:

Catering

Brown Boveri (Canada) Limited:

735 kV current transformers;
230 kV current transformers

Burndy Canada Ltd.:

spacer dampers for first two
735 kV lines

Canada Wire and Cable Company

Limited:

230 kV oil-filled cables

Canadian ASEA Electric Limited:

735 kV current transformers; 564 kV
lightning arrestors; 230/735 kV 333
MVA autotransformers

Canadian General Electric Company

Limited:

192 kV and 564 kV lightning
arrestors; 230/735 kV 333 MVA
autotransformers; 15/230 kV 500
MVA generator transformers

Canadian Ohio Brass Company

Limited:

192 kV lightning arrestors; hard-
ware for conductor suspension
assemblies for first two 735 kV lines

Canadian Porcelain Company Limited:

post type insulators for switchyard

Canadian Westinghouse Company

Limited:

735 kV shunt reactors; 15/230 kV
500 MVA generator transformers

Cegelec Canada Inc.:

15 kV isolated phase bus duct;
735 kV potential transformers

Cegelec Industrie Inc.:

735 kV circuit breakers; insulators
for first two 735 kV lines

Collins Radio Company of Canada, Limited:

microwave communications system

Concrete Reinforcing Engineering Ltd.:

anchor steel and fittings for first
two 735 kV lines

Davie Shipbuilding Limited:

intake structure trashracks and
embedded parts; intake structure
bulkhead gate and embedded parts;
gates and hoists for two spillway
structures; draft tube gates and
guides and tailrace tunnel stoplogs
and guides

Desourdy Construction Limitée:

civil construction of switchyard

Dominion Bridge Company Limited:

penstock steel liners; gates and
hoists for two water control struc-
tures and for powerhouse intake
structure

Dynamic Industries Inc.:

tower steel for first two 735 kV
lines

English Electric - A E I Canada

Limited:

230 kV current transformers and
potential devices

Fischbach and Moore of Canada Ltd.:

powerhouse mechanical/electrical
work for first four units

Foresteel Industries Limited:

footings for first two 735 kV lines;
stoplogs for two water control
structures

Francon Limitée:

switchyard grading

Hawker Siddeley Canada Limited:

two railway cars

Hendrickson Manufacturing Co. (Inc.):

two road hauling tractors

Imperial Oil Limited:

heating and diesel fuel

Industrial Screw & Machine

Works Ltd.:

anchor bolts for switchyard power-
house surface structures

Janin Construction Ltd.:

Group IV buildings; first two
735 kV transmission lines

Kearney National (Canada) Limited:

735 kV disconnect switches

Lacal Industries Limited:

guy hardware for first two
735 kV lines

La Fonderie de l'Islet Ltée:

trailer units

Lakeshore Movers & Warehousing

(Canada) Ltd.:

moving services

Manitowoc-Forsythe Corporation:

250-ton ringer crane

Maritime Agency Inc.:

marine transport and stevedoring

Marshall Steel Company Limited:

structural steel for surge chamber
cranes

Matthew Shipping Company Limited:

marine transport of conductor cable

Merlin-Gerin Canada Limited:

735 kV circuit breakers

Montel Inc.:

735 kV potential transformers

Montgomery Elevator Co. Limited:

powerhouse service elevators

Mussens Limited:

mobile crane

H.K. Porter Company (Canada)

Limited:

735 kV disconnect switches

Provincial Crane Division of

Dominion Bridge Company Limited:

250-ton fixed gantry crane;
intake gantry crane

Raise Equipment Ltd.:

inspection hoist for cable shafts

Reynolds Cable Company Limited:

735 kV conductor cable for
Churchill river crossings

Richards-Wilcox of Canada Limited:

surge chamber cranes

Royalmount Construction Limited:

forebay spillway

St. Lawrence Construction Limited:

Whitefish Falls control structure
and Jacopie spillway; road to
Jacopie spillway

Standard Structural Steel Ltd.:

steel for 735 kV river crossing
towers; steel for switchyard
structures

Wire Rope Industries of Canada Ltd.:

guy wire and overhead ground
wire for first two 735 kV lines

Total value of all contracts awarded for Churchill Falls Development to February 28, 1969:

\$ 337,000,000

Value of all contracts awarded March 1, 1969, to February 28, 1970:

\$ 141,000,000

Total value of all contracts awarded to February 28, 1970:

\$ 478,000,000

Engineering Services and Construction Managers: Acres Canadian Bechtel of Churchill Falls

